

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



17TH DISTRICT AGRICULTURAL ASSOCIATION
NEVADA COUNTY FAIR
GRASS VALLEY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-014
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

17TH DISTRICT AGRICULTURAL ASSOCIATION
NEVADA COUNTY FAIR
GRASS VALLEY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Anthony DelMastro

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#09-014

17TH DISTRICT AGRICULTURAL ASSOCIATION
NEVADA COUNTY FAIR
GRASS VALLEY, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Robert Lyss, President
Board of Directors
17th DAA, Nevada County Fair
P. O. Box 2687
Grass Valley, California 95945

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 17th District Agricultural Association (DAA), Nevada County Fair, Grass Valley, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 17th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

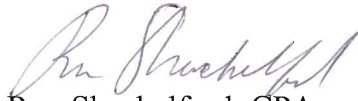
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 17th DAA, Nevada County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 17th DAA, Nevada County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-014, on the 17th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 17th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford".

Ron Shackelford, CPA
Chief, Audit Office

April 24, 2009

**17TH DISTRICT AGRICULTURAL ASSOCIATION
NEVADA COUNTY FAIR
GRASS VALLEY, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	Account Number	2008	2007
ASSETS			
Cash in Bank	111-117	\$ 708,910	\$ 680,617
Accounts Receivable, Net	131	63,395	111,340
Inventory	141	686	3,677
Deferred Charges	143	2,450	4,176
Construction In Progress	190	34,740	74,193
Land	191	1,018,037	598,266
Buildings and Improvements, Net	192	3,067,246	2,891,518
Equipment, Net	193	60,106	38,100
TOTAL ASSETS		<u>4,955,570</u>	<u>4,401,917</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	94,381	81,835
Current Portion of LT Debt	212.50	22,076	-
Taxes Payable	221 - 226	14,151	6,032
Deferred Income	228	4,815	19,398
Guaranteed Deposits	241	4,225	3,950
Compensated Absences Liability	245	99,817	84,575
Long Term Debt	250	477,924	-
Trust Liability	259	7,952	7,952
Total Liabilities		<u>725,341</u>	<u>203,742</u>
Net Resources			
Reserve for Junior Livestock Auction	251	63,365	64,315
Net Resources - Operations	291	464,659	531,754
Net Resources - Capital Assets, less Related Debt	291.1	3,702,205	3,602,106
Total Net Resources Available		<u>4,230,229</u>	<u>4,198,175</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 4,955,570</u>	<u>\$ 4,401,917</u>

**17TH DISTRICT AGRICULTURAL ASSOCIATION
NEVADA COUNTY FAIR
GRASS VALLEY, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2008 and 2007**

	Account Number	2008	2007
REVENUE			
State Apportionments	312	\$ 124,000	\$ 124,000
Project Reimbursement & Other Funds	317, 319, & 340	42,523	81,581
Admissions	410	368,149	364,102
Commercial Space	415	21,020	19,925
Carnival	421	258,288	255,025
Food Concessions	422	223,069	214,074
Exhibits	430	17,308	16,981
Horse Show	440	9,611	14,132
County Christmas Fair	450	116,195	105,726
Attractions - Fairtime	460	-	81,190
Draft Horse Show	4660	473,180	359,375
Miscellaneous Fair	470	258,797	274,197
JLA - Revenue	476	30,806	25,662
Interim	480	544,795	423,133
Prior Year Adjustment	490	10,377	13,602
Other Revenue	495	36,583	50,281
Total Revenue		<u>2,534,701</u>	<u>2,422,986</u>
EXPENSES			
Administration	500	532,006	574,018
Maintenance and Operations	520	636,217	620,575
Publicity	540	58,994	47,882
Attendance	560	165,839	148,707
Miscellaneous Fair	570	114,402	139,965
Miscellaneous Non-Fair	5705	84,967	31,855
JLA - Expense	576	31,754	28,182
Premiums	580	44,902	44,533
Exhibits	630	116,897	122,660
Horse Show	640	14,263	15,665
County Christmas Fair	650	37,946	29,615
Attractions - Fairtime	660	177,070	182,975
Interim Entertainment	6605	318,671	303,097
Equipment	723	14,763	27,665
Prior Year Adjustments	800	(12,678)	44,031
Cash Over/Short from Ticket Sales	850	750	593
Depreciation Expense	900	165,884	151,749
Capital Expenditures, Fair	910	-	(124,000)
Total Expenses		<u>2,502,647</u>	<u>2,389,767</u>
RESOURCES			
Net Change - Income / (Loss)		32,054	33,219
Resources Available, January 1		4,198,175	4,164,956
Resources Available, December 31		<u>\$ 4,230,229</u>	<u>\$ 4,198,175</u>

**17TH DISTRICT AGRICULTURAL ASSOCIATION
NEVADA COUNTY FAIR
GRASS VALLEY, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 32,054	\$ 33,219
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	47,945	(26,525)
(Increase) Decrease in Inventory	2,991	(2,284)
(Increase) Decrease in Deferred Charges	1,726	(4,176)
Increase (Decrease) in Deferred Income	(14,583)	(69,890)
Increase (Decrease) in Accounts Payable	12,546	64,343
Increase (Decrease) in Unclaimed Checks	-	(5,650)
Increase (Decrease) in Current Portion of LT-Debt	22,076	-
Increase (Decrease) in Payroll Taxes and Other Liabilities	8,119	3,990
Increase (Decrease) in Compensated Absence Liability	15,242	25,995
Increase (Decrease) in Guaranteed Deposits	275	2,500
Total Adjustments	<u>96,337</u>	<u>(11,697)</u>
Net Cash Provided (Used) by Operating Activities	<u>128,391</u>	<u>21,522</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Land	(419,771)	-
(Increase) Decrease in Construction in Progress	39,453	(45,753)
(Increase) Decrease in Buildings & Improvements	(175,728)	10,973
(Increase) Decrease in Equipmen	<u>(21,976)</u>	<u>(5,150)</u>
Net Cash Provided (Used) by Investing Activities	<u>(578,022)</u>	<u>(39,930)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>477,924</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>477,924</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	28,293	(18,408)
Cash at Beginning of Year	680,617	699,025
CASH AT END OF YEAR	<u><u>\$ 708,910</u></u>	<u><u>\$ 680,617</u></u>

**17th DISTRICT AGRICULTURAL ASSOCIATION
NEVADA COUNTY FAIR
GRASS VALLEY, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 17th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Nevada County Fair each year in Grass Valley, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the

useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2008. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash & Change Fund	\$ 950	\$ 950
Cash in Bank - Operating	6,280	8,088
Cash-Operating MM	44,274	338,654
Cash in Bank – Premium	(2,479)	(4,213)
Cash in Bank – Payroll	-	-
Cash in Bank – Clearing	(245)	-
Cash-JLA Checking	(29,341)	(10,848)
Cash-JLA Money Market	92,639	83,074
Cash in Bank – Time Deposits	<u>596,832</u>	<u>264,912</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 708,910</u></u>	 <u><u>\$ 680,617</u></u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable	\$ 39,752	\$ 33,081
Accounts Receivable – Nevada Co.	1,817	-
Accounts Receivable – Unpaid Spons.	6,900	-
Accounts Receivable – Sandra Woods	15,831	-
Accounts Receivable - JLA	68	-
Accounts Receivable - CCA	-	75,361
Unemployment Insurance-Reimb	-	3,314
Allowance for Doubtful Accounts	<u>(973)</u>	<u>(416)</u>
 Accounts Receivable - Net	 <u><u>\$ 63,395</u></u>	 <u><u>\$ 111,340</u></u>

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$5,642,906	\$5,308,810
Less: Accumulated Depreciation	<u>(2,575,660)</u>	<u>(2,417,292)</u>
Building & Improvements - Net	<u><u>\$3,067,256</u></u>	<u><u>\$2,891,518</u></u>

Equipment	\$ 197,551	\$ 168,060
Less: Accumulated Depreciation	<u>(137,445)</u>	<u>(129,930)</u>
Equipment - Net	<u>\$ 60,106</u>	<u>\$ 38,130</u>

NOTE 6 **LONG-TERM DEBT**

The DAA has entered into a long-term loan agreement with Fairs & Expositions (F&E) to finance the purchase of McCourtney land and buildings on the fairgrounds. The terms of the agreement are as follows:

F&E McCourtney Loan:

Loan Amount	\$ 500,000
First Payment Date	January 1, 2009
Payment Amount	\$ 4,085
Duration of Loan	180 Months
Interest Rate	5% APR
Total Outstanding at 12/31/08	\$ 500,000
Current Portion at 12/31/08	\$ 22,076
Long-Term Portion at 12/31/08	\$ 477,924

NOTE 7 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 9 **LITIGATION**

The DAA is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations, the DAA's management believes none of which will have a material effect on its financial position or results of operations.

**17th DISTRICT AGRICULTURAL ASSOCIATION
NEVADA COUNTY FAIR
GRASS VALLEY, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 17th DAA Board of Directors
1	Chief Executive Officer, 17th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



17TH DISTRICT AGRICULTURAL ASSOCIATION
NEVADA COUNTY FAIR
GRASS VALLEY, CALIFORNIA

MANAGEMENT REPORT #09-014

YEAR ENDED DECEMBER 31, 2008

17TH DISTRICT AGRICULTURAL ASSOCIATION
NEVADA COUNTY FAIR
GRASS VALLEY, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Anthony DelMastro

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#09-014

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Robert Lyss, President
Board of Directors
17th DAA, Nevada County Fair
P. O. Box 2687
Grass Valley, California 95945

In planning and performing our audit of the financial statements of the 17th District Agricultural Association (DAA), Nevada County Fair, Grass Valley, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Nevada County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 17th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 17th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 17th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 17th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 17th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 17th DAA and compliance with state laws and regulations, we identified four areas with reportable conditions that are considered weaknesses in the Fair's operations: improper payments, excessive leave liability, standard agreements, and barter services with temporary employees. We have provided eleven recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 17th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

IMPROPER PAYMENTS

According to the Fair's payroll records, one rank & file employee and one seasonal employee of the Fair cashed paid leave hours in excess of State limitations. In 2008, the Fair's compensated leave records show one rank & file employee cashed 160 vacation hours totaling approximately \$3,555. In addition, the Fair transposed the amount on the check and, as a result, overpaid an additional \$270. The second, a seasonal employee, cashed 96 holiday credit hours totaling approximately \$2,976. The State does not allow employees to cash out their leave balances unless an employee leaves state service or an excluded employee is authorized by the Department of Personnel Administration (DPA) buy back program. As of October 22, 2008, DPA has suspended the leave buy back program for an indefinite period of time due to the 2008 California budget crisis. Based on DPA rules, these employees improperly cashed out approximately \$6,801 of leave hours. Our office noted a similar instance of improper leave payout in 2006. The Fair should put an emphasis on complying with DPA rules and regulations when accounting for leave payouts. As a state department and/or agency, the Fair should stress the importance of public perception and accountability.

Recommendations

- 1. The Fair should establish an accounts receivable for these two employees and collect the amounts paid for compensated leave.*
- 2. In the future, the Fair should comply with all State rules and regulations governing payroll and restrict the cashing of paid leave to the maximum limitation established by DPA.*

EXCESSIVE LEAVE LIABILITY

The Fair allowed two employees to exceed the maximum hours allowed for accrual of vacation. These employees had 1,076 and 966 hours of vacation. According to DPA's related bargaining units, the maximum vacation balance that may be accumulated is 640 hours. As well as not complying with the terms and conditions specified within the bargaining unit, allowing an employee to maintain excessive leave balances represents a considerable cash burden should the employee separate from the Fair. This was a prior year finding.

Additionally, the Fair incorrectly accrues holiday credit for seasonal employees. Based on the seasonal employees' classification, seasonal aide, they are only entitled to accrued vacation and sick time based on qualifying hours worked. Furthermore, the Fair enrolled one seasonal employee into health benefits; seasonal employees, or 194-day employees, are entitled to leave benefits and are excluded from bargaining for health benefits.

Recommendations

3. *The Fair should ensure permanent employees do not maintain accrued leave hours in excess of the required limits. The Fair should encourage the employees with excess balances to take time off, thereby reducing their accumulated leave balances.*
4. *The Fair should contact the Human Resource Board at CDFA and determine the corrective action to take. In addition, the Fair should adjust these employees' leave records and discontinue accruing holiday credit.*

STANDARD AGREEMENTS

An examination of standard agreements revealed the following exceptions that expose the Fair to loss:

- a. The Fair did not always prepare a standard agreement for businesses/individuals who received an IRS Form 1099-MISC for services rendered. In addition, we noted two instances where these individuals were paid in excess of \$15,000, and should have had an agreement prepared on a Standard Form 213 (Std 213). Failure to prepare a standard agreement exposes the Fair to considerable risk. The IRS Form 1099-MISC is issued to recipients of non-employee compensation of \$600 or more from the Fair during the year. According to the Accounting Procedures Manual (APM), fairs are required to enter into a contract for all services performed by independent contractors.
- b. The Fair did not always prepare a Standard 204, Payee Data Record, for business/individuals receiving payment from the Fair. This form is used in lieu of the IRS Form W-9 and should be on file for taxpayer identification purposes. In addition, there was no evidence of federal backup withholding. If no Standard 204 is prepared or accurately completed, federal backup withholding is required to be withheld.
- c. The Fair did not always prepare or issue an IRS Form 1099-MISC to contractors receiving \$600 or more for services performed. The IRS requires this form be prepared any time contractors earned over \$600 in a calendar year.
- d. Based on review of payments made to contractors on IRS Form 1099-MISC, we noted that the Fair did not always prepare a Std 213 for contracts that exceeded \$10,000. This form is used in lieu of form Std 210 that has a limit of \$9,999. Secondly, the Fair did not prepare a Standard Agreement Summary Form 215 (Std 215) for each Std 213 as required by the Fairs & Expositions (F&E) Contract Manual.
- e. There was no evidence the Fair obtained bids for three personal service contracts in excess of \$5,000 when required. According to the F&E Contract Manual, contracts over \$5,000 and not otherwise exempt from bidding must be either formally bid or awarded using the Alternative Bid Process.
- f. The Fair did not prepare the Contractor Certification Clause form CCC 307. This form should be completed for each personal service agreement the Fair enters into. Moreover, the Fair did not include in each contract the General Terms and Conditions, form GTC 307; this form provides general terms and conditions according to the F&E Contract Manual.

Recommendations

5. *The Fair should ensure that a contract exists for any business/individual who receives an IRS Form 1099-MISC from the Fair for services rendered.*
6. *The Fair should ensure that a Std 204, Payee Data Record, is prepared for any business/individual receiving payment from the State of California (DAA). If no Std 204 is prepared or accurately completed, federal backup withholding is required to be withheld.*
7. *The Fair should ensure that it issues a Miscellaneous Income Form 1099 for each independent contractor earning more than \$600 in a calendar year.*
8. *For contracts that exceed \$10,000, the Fair should prepare a form Std 213; also the Fair should ensure that a Std 215, Agreement Summary, is prepared for each Std 213 agreement.*
9. *The Fair should follow the F&E Contract Manual and obtain and document bids for all contracts over \$5,000 that are not otherwise exempt from the bidding process.*
10. *For each personal service agreement entered into, the Fair should ensure that form CCC 30 is completed and that the Fair includes the General Terms and Conditions form GTC 307.*

BARTER SERVICES WITH TEMPORARY EMPLOYEES

The Fair has a standard agreement with seven individuals to serve as recreation vehicle (RV) park host, caretaker of the fairgrounds, and to provide after-hours night emergency services in exchange for rent-free lodging in the fairground's RV park. The Fair did not prepare or issue an Internal Revenue Service (IRS) Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, to report the fair market value of the rent-free lodging as miscellaneous income. The IRS requires this form be prepared any time services are exchanged through a barter exchange.

Recommendation

11. *The Fair should ensure it reports the value of providing an individual rent-free housing to the IRS on a Form 1099-B, Proceeds from Broker and Barter Exchange Transactions.*

NON-REPORTABLE CONDITIONS

ACCOUNTING FOR COURTESY PASSES

Based on a review of the Fair's accounting for courtesy passes and credential admissions, we identified that the Fair utilizes a generic ticket stock for multiple uses, such as credential and courtesy pass admission to the Fair. Although the Fair maintains a list of who received each free admission, there was no reconciliation performed to identify the amount of courtesy passes honored during fairtime. Furthermore, the Fair did not differentiate between courtesy and credential passes. According the Food & Agriculture code sections 3021 – 3029, for credential pass accounting, the Fair should have the words "credential pass" printed on each ticket issued as a credential pass. In addition to maintaining a list of who received credential and courtesy passes, the Fair will maintain records that show the number of honored courtesy pass admissions at fairtime.

Recommendation

The Fair should follow the rules outlined in Food & Agriculture codes sections 3021 - 3029, when accounting for courtesy and credential admissions.

INDEPENDENT CONTRACTOR

The Fair was unaware that it is required to submit the Employment Development Department (EDD) form DE 542, Report of Independent Contractors, form for independent contractors. The Fair is required to report to EDD within 20 days of paying or contracting for \$600 or more with an independent contractor in any calendar year by submitting Form DE 542. According to EDD, any business or government entity that is required to file a federal IRS Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

Recommendation

The Fair should comply with the State Senate Bill 542 that requires entities to report specified information to EDD on independent contractors within 20 days of either making payments totaling \$600 or more, or entering into a contract in any calendar year, whichever is earlier, to avoid penalty for failure to comply within the required timeframe.

TEMPORARY EMPLOYEES

The Fair allowed four temporary employees to work in excess of the 119-day limitation within a calendar year. According to the Accounting Procedures Manual (APM), "by law temporary employees may not work more than 119 days in a calendar year." The APM further cites Article VII Sec. 4(1) of the Constitution of the State of California as its basis for this policy. We noted these employees worked 120, 135, 155, and 201 days, in 2008.

Management Report #09-014

Grass Valley, California

Finally, the Fair did not prepare and submit the DE 34, Report of New Employee(s), to the Employment Development Department (EDD) as required. Information contained on the form is used to assist the state and county agencies in any garnishments or other deductions to any new or rehire temporary employees. This report is to be submitted to the EDD within 20 days of their start work date. Failure to report may result in EDD penalty of \$24 for each report of new hire.

Recommendations

The Fair should comply with the APM and State constitution by ensuring temporary employees do not work in excess of the 119-day limitation.

The Fair should ensure that the DE 34, Report of New Employee(s), is prepared and submitted to the EDD within 20 days of their start work date.

ACCOUNTING FOR INVENTORY

The Fair has not adjusted the inventory account #14110, Inventory - Souvenir Sales, totaling \$2,746 for year-end 2008. The Fair maintains an inventory control sheet of items that are purchased for resale, but these items are not recorded at cost. Additionally, the Fair does not make adjustments to the inventory account on the general ledger as items are sold throughout the year. According to the APM section 3.13, the Fair is to record the beginning inventory of items purchased for resale at cost according to the vendors slip. Then as items are sold, the Fair is to make adjustments to this account and periodically reconcile it to the physical inventory of items on hand.

Recommendation

The Fair should establish a perpetual inventory for items remaining unsold at the end of the fair year. The Fair should reflect in the general ledger inventory items on hand at cost on the inventory control sheet.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



November 18, 2009

Ron Shackelford, CPA
Chief, Audit Office
1220 N Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackelford:

Please find enclosed the response to the Management Report #09-014 pertaining to the audit of the financial records of the 17th District Agricultural Association, the Nevada County Fairgrounds.

The management report and response has been discussed thoroughly with the Board of Directors and the Association's staff. The Board is confident that any improper procedures have been addressed, corrected and that future procedures will comply with generally accepted accounting principles and the policies of the California Department of Food and Agriculture.

We appreciate the Audit Department's efforts and guidance in assisting the Association with proper accounting practices and fiscal controls.

Sincerely,


Sandra J. Woods, CEO

IMPROPER PAYMENT

1. *Recommendation: The Fair should establish an accounts receivable for these two employees and collect the amounts paid for compensated leave.*

Response: The Fair will book the accounts receivable for the two employees.

The Fair will also pursue authorization from the Department of Personnel Administration (DPA) for the rank and file employee to participate in the DPA's buy back program. In the future the Fair will consult with the DPA to ensure compliance with the State rules governing payroll and restrict the cashing of paid leave to the maximum limitation.

Implementation Timetable: November 2009

2. *Recommendation: In the future, the Fair should comply with all State rules and regulations governing payroll and restrict the cashing of paid leave to the maximum limitation established by the DPA.*

Response: It is the intent of the Fair to comply with all State rules and regulations governing payroll; the complexity of the State rules have made it difficult to be in compliance. In the future, the Fair will seek council from the Department of Personnel Administration or CDFA Department of Human Resources to validate that payment of leave hours are appropriate and not in excess of State limitations. Implemented.

EXCESSIVE LEAVE LIABILITY

3. *Recommendation: The Fair should ensure permanent employees do not maintain accrued leave hours in excess of the required limits. The Fair should encourage the employees with excess balances to take time off, thereby reducing their accumulated leave balances.*

Response: The Fair appreciates that the excessive leave liability represents a considerable cash burden should the employees separate from the Fair. While the Fair encourages employees with excess balances to take time off and reduce their accumulated leave balance, the reality is that this Association produces three major fairs a year (Nevada County Fair, Draft Horse Classic and the Country Christmas Faire), which require considerable effort and time from the employees. The current furloughing policy further compounds the issue. The Fair will review their labor plan and work load and attempt to reduce the accrued leave hours.

Implementation: Ongoing

4. *Recommendation: The Fair should contact the Human Resource Board at CDFA and determine the corrective action to take. In addition, the Fair should adjust these employee's leave records and discontinue accruing holiday credit.*

Response: The Fair will consult with CDFA Department of Human Resources to correct the erroneous holiday credit for seasonal employees.

Implementation: November 2009

STANDARD AGREEMENTS

5. *Recommendation: The Fair should ensure that a contract exists for any business/individual who receives an IRS Form 1099-MISC from the Fair for services rendered.*

Response: The Fair will issue a standard agreement for any contractor who receives an IRS Form 1099-MISC for services rendered in excess of \$600 or more during the year.

Implementation: January 2009. Form 1099 will be issued in January 2010.

6. *Recommendation: The Fair should ensure that a Std 204, Payee Data Record, is prepared for any business/individuals receiving payment from the State of California (DAAs). If no Std 204 is prepared or accurately completed, federal backup withholdings is required to be withheld.*

Response: The Fair used the IRS Form W-9 in lieu of the Standard 204, and kept them on file for taxpayer identification purposes. The Fair has now switched from requiring the completion of form W-9 to using Standard 204, Payee Data Record.

Implemented: January 2009.

7. *Recommendation: The Fair should ensure that all independent contractors earning more than \$600 in a calendar year complete a Miscellaneous Income Form 1099.*

Response: The Fair is a bit perplexed by this recommendation that a contractor complete a Miscellaneous Income Form 1099. The Fair plans to issue an IRS Form 1099-MISC for each independent contractors earning more than \$600 in a calendar year and to provide a copy of that form to the contractor and the Internal Revenue Service.

Implementation: January 2010.

8. *Recommendation: For contracts that exceed \$10,000 the Fair should prepare a form Std 213; also the Fair should ensure that a Std 215 Agreement Summary is prepared for each Std 213 agreement.*

Response: The Fair will prepare a form Std 213 Standard Agreement for contracts that exceed \$10,000; the Fair will also prepare a Std 215 Agreement Summary for each of the Std 213 agreements.

Implemented: January 2009.

9. *Recommendation: The Fair should follow the F&E Contract Manual and obtain and document bids for all contracts of \$5,000 that are not otherwise exempt from the bidding process.*

Response: The Fair will obtain and document bids for all contracts of \$5,000 that are not otherwise exempt from the bidding process.

Implemented: October 2009.

STANDARD AGREEMENTS

10. Recommendation: For each personal service agreement entered into the Fair should ensure that form CCC 30 is completed and that the Fair includes the General Terms and Conditions form GTC 307.

Response: The Fair is ensuring that the Contractor Certification Clause, form CCC 307, is completed for each standard agreement issued. The Fair incorporated the GTC, General Terms and Conditions, in every agreement by reference with direction to view the contract exhibit at www.dgs.ca.gov/contracts/. The Fair understood that incorporation by reference was acceptable. In the future the Fair will include a physical copy of GTC 307 with each standard agreement issued.

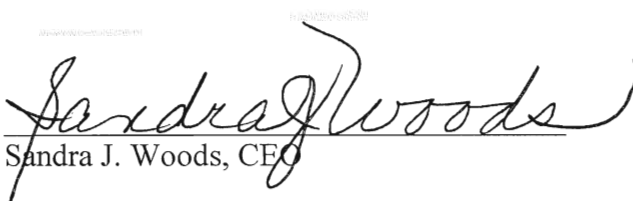
Implemented: January 2009.

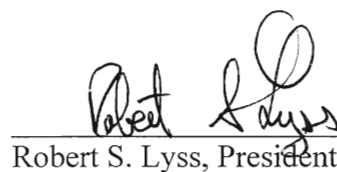
BARTER SERVICES WITH TEMPORARY EMPLOYEES

11. Recommendation: The Fair should ensure it reports the value of providing an individual rent-free housing to the IRS on a Form 1099-B, Proceeds from Broker and Barter Exchange Transactions.

Response: The seven individuals assisting with operating the RV park in exchange for rent-free lodging have all terminated their positions and vacated the park. The park is currently being operated by Fair employees. In the future, should the Fair engage in a barter for services in exchange for rent-free lodging, the Fair will issue an IRS Form 1099-B, Proceeds from Broker and Barter Exchange Transactions.

Implemented: Form 1099 will be issued January 2010.


Sandra J. Woods, CEO


Robert S. Lyss, President

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 17th DAA, Nevada County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report. However, in order to provide clarity and perspective, we have provided the following comments for reportable recommendation #7. The comments are as follows:

Recommendation #7

The Fair states in their response that they concurred with the findings for independent contractors. To better clarify, according to the Internal Revenue Service instructions for completing a form 1099-MISC, the Fair must file a 1099-MISC for each independent contractor whom they have paid \$600 or more in a calendar year.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between April 13, 2009 and April 24, 2009. My staff met with management on April 24, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

April 24, 2009

REPORT DISTRIBUTION

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